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SUPREME COURT
OF THE STATE OF WASHINGTON

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In re:

BOND ISSUANCE OF GREATER WENATCHEE
REGIONAL EVENTS CENTER PUBLIC FACILITIES DISTRICT

GREATER WENATCHEE REGIONAL EVENTS CENTER
PUBLIC FACILITIES DISTRICT,

Appellant,

v.

CITY OF WENATCHEE, WASHINGTON,

Respondent.

BRIEF OF AMICUS CURIAE CITY OF VANCOUVER,
WASHINGTON

FILED
SUPREME COURT
STATE OF WASHINGTON
2011 DEC 22 P 2:11
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ORIGINAL

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. IDENTITY AND INTERESTS OF AMICUS CURIAE.....	2
III. ISSUE TO BE ADDRESSED BY AMICUS CURIAE	4
IV. STATEMENT OF THE CASE.....	4
A. Under the Proposed Bond CLA, the Obligation of the City to Advance Funds to the District if Needed to Pay Debt Service on the Proposed Bonds Is Payable from and Secured by the City's General Tax Revenues.....	4
B. It Appears to Be Reasonably Certain that the City Will Have to Pay Substantially All of the Debt Service on the District's Proposed Bonds for the Foreseeable Future and Possibly for the Entire Term of such Bonds.....	6
V. ARGUMENT	8
A. The Proposed Bond CLA Is Best Characterized as a Guaranty and Not as a "Loan Agreement."	8
B. A Guaranty by a City of an Obligation for Borrowed Money Does Not Constitute "Debt" of the City so Long as the Obligation to Pay Is Contingent.....	10
C. The Guaranty by the City of the District's Proposed Bonds Constitutes "Debt" of the City, as the Contingency upon which the City's Obligation to Pay Is Conditioned Appears Reasonably Certain to Occur.....	12
D. A City Cannot Avoid Characterization of an Obligation to Make Payments for Borrowed Money as "Debt" by Use of a Subterfuge	14
E. If It Is Reasonably Certain that a Contingency Will Occur which Is a Condition to a City's Obligation to Make a Future Payment for Borrowed Money, that Obligation Constitutes "Debt."	15
F. The Appropriate Measure of the Amount of Debt where a City Guarantees the Future Payment of Principal of and Interest on Bonds Issued by a Third Party Is the Principal Amount of the Bonds, but not the Related Interest	17

TABLE OF CONTENTS

(continued)

	Page
G. Characterization of the Proposed Bond CLA in this Case as "Debt" Is Unlikely to Affect other Issuers or Financings in the State.....	17
VI. CONCLUSION.....	18

TABLE OF AUTHORITIES

	Page
 CASES	
<i>B & D Leasing Co. v. Ager</i> , 50 Wn. App. 299, 748 P.2d 652 (1988).....	9
<i>Baxter v. Stevens</i> , 54 Wn. App. 456, 773 P.2d 890 (1989).....	8
<i>Comfort v. City of Tacoma</i> , 142 Wash. 249, 252 P. 929 (1927)....	10, 11, 12
<i>Dept. of Ecology v. State Finance Comm.</i> , 116 Wn.2d 246, 804 P.2d 1241 (1991).....	10, 15, 16
<i>Hafer v. Spaeth</i> , 22 Wn.2d 378, 156 P.2d 408 (1945).....	8
<i>Kelly v. City of Sunnyside</i> , 168 Wash. 95, 11 P.2d 230 (1932)	11
<i>Robey v. Walton Lumber Co.</i> , 17 Wn.2d 242, 135 P.2d 95 (1943)	9
<i>State ex rel. State Finance Comm. v. Martin</i> , 62 Wn.2d 645, 384 P.2d 833 (1963) (en banc).....	10
<i>State ex rel. Troy v. Yelle</i> , 36 Wn.2d 192, 217 P.2d 337 (1950).....	10
<i>State ex rel. Wittler v. Yelle</i> , 65 Wn.2d 660, 399 P.2d 319 (1965).....	10
<i>Wilson Court Ltd. P'ship v. Tony Maroni's, Inc.</i> , 134 Wn.2d 692, 952 P.2d 590 (1998).....	9
 STATUTES	
RCW 35.50.010	12
RCW 36.100.010(7).....	9
RCW 39.36.020	10, 17
RCW 39.34.060	9
RCW 82.14.390(5).....	9
 CONSTITUTIONAL PROVISIONS	

Const., Art. VIII, § 6.....	10
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I. INTRODUCTION

This case involves the validity of a proposed “Contingent Loan Agreement” (the “Proposed Bond CLA”)¹ between the City of Wenatchee (the “City”) and the Greater Wenatchee Regional Events Center Public Facilities District (the “District”). The Proposed Bond CLA would secure bonds to be issued by the District (the “Proposed Bonds”) to refinance its 2008 Revenue and Special Tax Bond Anticipation Notes (the “2008 Notes”) issued in the principal amount of \$36.6 million.² The 2008 Notes financed a portion of the costs of the District’s Toyota Town Center multi-purpose arena project (the “Wenatchee Center”).³ The City previously executed a Contingent Loan Agreement to back the payment of interest on the 2008 Notes (the “Note CLA”).

The District’s arguments in support of the Proposed Bond CLA, and to some extent the arguments of the Taxpayer Representative and the City, are predicated on the assumption that the Proposed Bond CLA constitutes an agreement by the City to “loan” money to the District in the future under certain circumstances. But the Proposed Bond CLA is not

¹ The Proposed Bond CLA, entitled “Interlocal Agreement,” is included as Appendix A to Appellant’s Brief.

² The District also issued approximately \$5.1 million in bond anticipation notes payable from special local option sales tax revenues, rather than from project revenues (the “Sales Tax Notes”).

³ The District defaulted on the payment of the 2008 Notes when they became due on December 1, 2011.

really a “loan agreement.” Rather, the Proposed Bond CLA is in substance a *guaranty* by the City of the District’s Proposed Bonds.

The City’s proposed guaranty would constitute “debt” of the City for Constitutional and statutory debt limitation purposes only if and to the extent it is reasonably certain to be drawn upon to pay principal of and interest on the Bonds. Unfortunately, that appears to be the case.⁴ It appears that the District would need to draw upon the City’s Proposed Bond CLA (that is, the guaranty) from the outset to pay all or substantially all of the principal and interest (“debt service”) coming due on the Proposed Bonds. Moreover, it appears that the District would have to draw upon the City’s guaranty for the foreseeable future – possibly for the full term of the Proposed Bonds – and without any reasonable prospect of the District ever repaying the City.

Thus, the Proposed Bond CLA, although it would not be “debt” in other circumstances, here would appear to constitute “debt” of the City under the State’s Constitution and statutes.

II. IDENTITY AND INTERESTS OF AMICUS CURIAE

The City of Vancouver (“Vancouver” or “Amicus Curiae”) participated in the financing by the Vancouver Downtown Redevelopment

⁴ We say “appears” as there may not be sufficient facts in the record for the Court to make this determination, as further discussed below.

Authority (the “Vancouver Authority”) of a regional events center pursuant to the same statutory provisions as did the District and the City in financing the Wenatchee Center.⁵ Moreover, the Vancouver Authority’s financing involved a contingent obligation on the part of Vancouver to contribute funds to be applied to pay debt service on the bonds in the event that expected project and other revenues were insufficient to do so.⁶ Thus, the outcome of this case is of critical importance to *Amicus Curiae*, to the other local governments which participated in the Vancouver Authority financing,⁷ and to the investors who purchased those bonds.

The issue in this case – whether the Proposed Bond CLA constitutes “debt” of the City – is being presented under what arguably are the worst possible facts. The City would in substance be guarantying bonds of an issuer – the District – which is effectively insolvent. If this Court were to conclude that the Proposed Bond CLA constituted “debt” of the City under the circumstances presented, but did so on unduly broad

⁵ The Vancouver Authority issued more than \$65 million of bonds in 2003 to finance the Vancouver Convention Center and Hotel. The bonds are backed in part by an obligation of the City of Vancouver to advance moneys, within specified limits, to be applied to pay debt service on the bonds to the extent that project and other revenues are insufficient. Orrick, Herrington & Sutcliffe LLP, was bond counsel in connection with the financing. Orrick, with offices in Seattle, Portland and other major cities, has had the largest bond counsel practice in the country for almost two decades, and has had a municipal bond practice for more than 100 years.

⁶ This agreement is also in substance a guaranty by Vancouver, but it is more limited in scope than the Proposed Bond CLA.

⁷ The other participants included the Vancouver Public Facilities District and the Clark County Public Facilities District.

grounds, the decision could call into question Vancouver's prior financing, as well as other similar financings around the State.

III. ISSUE TO BE ADDRESSED BY AMICUS CURIAE

Vancouver will address whether, under the circumstances presented, the proposed guaranty by the City of the District's Proposed Bonds constitutes "debt" of the City for purposes of State Constitutional and statutory debt limitations.

IV. STATEMENT OF THE CASE

The District's Statement of the Case, although accurate, does not adequately address certain facts critical to the ultimate resolution of this case. Those facts include the following.

A. Under the Proposed Bond CLA, the Obligation of the City to Advance Funds to the District if Needed to Pay Debt Service on the Proposed Bonds Is Payable from and Secured by the City's General Tax Revenues.

The District asserts that the Proposed Bond CLA does not constitute "debt" because, among other things, the City does not pledge its future general tax revenues to the repayment of the Proposed Bonds. Appellant Br. 39-42. The facts Appellant cites, however, do not tell the whole story. It is true that the word "pledge" is not used in the Proposed Bond CLA, that there is not an express reference to "general tax revenues," and that the City does not promise to repay the Proposed Bonds

directly. But what the City does promise under the Proposed Bond CLA is in substance the same.

Pursuant to the Proposed Bond CLA, the City promises to advance funds to the District as and to the extent necessary for the District to pay debt service on the Proposed Bonds. Appellant Br., App. A, Proposed Bond CLA [hereinafter Proposed Bond CLA] § 1.01. The obligation of the City under the CLA by its terms is “absolute and unconditional.” *Id.* § 1.01(f). The obligation of the City to advance funds is not limited to any particular source, but rather is payable from “available City funds, from City borrowings or from *any other legally available source.*” *Id.* § 1.01(c). The obligation to advance funds, therefore, necessarily extends to moneys in the City’s general fund, including tax and other revenues in that fund.⁸ Stated otherwise, the City unconditionally promises to advance moneys to the District, including from its general tax revenues, to be applied to repay an obligation for borrowed money, if and to the extent the District has insufficient moneys to do so.

⁸ The Proposed Bond CLA would be of little, if any, value to prospective investors in the Proposed Bonds unless it were backed by the City’s general tax revenues.

B. It Appears to Be Reasonably Certain that the City Will Have to Pay Substantially All of the Debt Service on the District's Proposed Bonds for the Foreseeable Future and Possibly for the Entire Term of such Bonds.

According to the Washington State Auditor's Report, dated September 6, 2011, for the District's fiscal year ended December 31, 2010 (the "Report"),⁹ the District has operated at a substantial loss since it opened. App. A 2-3. Total revenues over that period amounted to only \$7 million, while total expenses amounted to more than \$15.5 million. *Id.* That is, the District's *expenses were more than double* the amount of the District's *revenues*.

For 2010 alone (the District's most recent full fiscal year), the District's net *loss* amounted to \$4 million, based on a net *operating loss*¹⁰ of \$2.4 million. *Id.* at 16. The District's revenues in 2010 *fell* by \$700,000 (to \$3.0 million in 2010 from \$3.7 million in 2009), or by almost 20%. *Id.* The District's net loss for the prior year – 2009 – amounted to \$3.9 million, based on a net operating loss of \$2.5 million. *Id.* As of December 31, 2010, the District's accumulated net operating loss

⁹ This Court is requested to take judicial notice of the Report, which is attached hereto as Appendix A. As required by ER 201, the Report and its contents are not subject to reasonable dispute in that they are from a source, the Office of the State Auditor, whose accuracy cannot reasonably be questioned.

¹⁰ As shown in the Report, net operating loss is determined by subtracting operating expenses from operating revenues. App. A 16. Net loss is determined by subtracting net *non*-operating loss from net operating loss. *Id.* The District's net *non*-operating loss consisted primarily of debt service on its 2008 Notes (\$2.2 million in 2010), as offset by its special sales tax revenues (\$590,000 in 2010). *Id.* at 19.

amounted to more than \$6.5 million. *Id.* at 2.¹¹ Thus, by any reasonable measure, the District is insolvent.¹² Moreover, there is nothing in the record which indicates that there is a reasonable likelihood that the District can either materially increase its revenues in the future, or materially reduce its costs, such that it would be able to pay debt service on the Proposed Bonds.¹³

The District therefore appears to lack the financial wherewithal not only to repay its prior “loans” from the City, which were needed to pay interest on the 2008 Notes,¹⁴ but also to pay debt service on the Proposed Bonds. Thus, it appears reasonably certain that the City would have to “loan” moneys to the District pursuant to the Proposed Bond CLA

¹¹ As the Report notes, “operating expenses” from an accounting standpoint include depreciation of the cost of the Center and the District’s other assets over time, which is not an out-of-pocket cash expense. App. A 21. Even if depreciation expense is excluded, the District had an accumulated cash flow *loss* of more than \$1.7 million through 2010, and in 2010 had positive cash flow of only \$50,000. This compares to annual debt service of \$2.4 *million* on the Proposed Bonds if they were issued in the principal amount of \$37 million, matured over 25 years, and had an interest rate of 5% (determined using a basic financial calculator).

¹² The *Merriam-Webster Third New International Dictionary* (Philip Babcock Gove ed. 2002) defines “insolvent” as “unable to pay debts as they fall due . . . in the usual course of business.”

¹³ According to the Report, “[t]he Town Toyota Center likely will not generate enough revenue through operations to fund both the cost of operations and debt service.” *Id.* at 8, n.1. The District’s own “Management’s Discussion and Analysis” states “[t]he District’s operating revenues have not been sufficient enough to cover both operating expenses and debt service and *it appears unlikely that current operations will generate enough revenue to ever cover debt service.*” *Id.* at 14 (emphasis added).

¹⁴ As set forth in Appellant’s Brief, the City has now “loaned” a total of more than \$3.4 *million* to the District for the District to pay the interest on the 2008 Notes. Appellant Br. 9. Although it cannot be ascertained directly from the record, it appears that the District has not paid the City any of the principal or interest on those “loans.”

sufficient for the District to pay all or substantially all of the debt service on the Proposed Bonds. And it also appears reasonably certain that the City would have to do so for the foreseeable future¹⁵ and possibly for the entire term of the Proposed Bonds.¹⁶

V. ARGUMENT

A. The Proposed Bond CLA Is Best Characterized as a Guaranty and Not as a “Loan Agreement.”

This Court has defined a loan as “an advancement of money under a contract or stipulation, express or implied, whereby the person to whom the advancement is made binds himself to repay it at some future time.” *Hafer v. Spaeth*, 22 Wn.2d 378, 382, 156 P.2d 408 (1945), *overruled on other grounds by Whitaker v. Spiegel, Inc.*, 95 Wn.2d 661, 623 P.2d 1147 (1981); *Baxter v. Stevens*, 54 Wn. App. 456, 459, 773 P.2d 890 (1989) . The City is obligated to advance funds pursuant to the Proposed Bond CLA, however, *only* when the District does *not* have sufficient money to pay debt service on the Proposed Bonds (let alone to repay a “loan” from

¹⁵ The determination of these factual issues is not necessary in order for this Court to fairly resolve the legal issue presented by this case. The legal issue to be resolved is the circumstances under which a guaranty by a city of a third party’s bonds constitutes “debt” of the city for purposes of Constitutional and statutory debt limitations. Those facts can, if necessary, be left for later determination by the trial court.

¹⁶ The orders of magnitude involved here are greater than they may appear. If the Proposed Bonds were issued in the principal amount of \$37 million (it likely would be more in order to pay costs of issuance), the interest rate on the Bonds was five percent, and the Bonds matured over 25 years, and if the City had to advance funds under the Proposed Bond CLA to pay all of the debt service on the Bonds, the amount the District would owe the City, with interest, at the end of the 25 years *would be more than \$110 million* (determined using a basic financial calculator).

the City). An advance of money to a person who at the time, by definition, is unable to repay it is better characterized as something other than a loan.¹⁷

The obligation of the City under the Proposed Bond CLA is instead best characterized as a *guaranty* by the City of the District's Proposed Bonds. This Court has defined a guaranty as "an undertaking or promise on the part of one person which is collateral to a primary or principal obligation on the part of another, and which binds the obligor to performance in the event of nonperformance by such other, the latter being bound to perform primarily." *Wilson Court Ltd. P'ship v. Tony Maroni's, Inc.*, 134 Wn.2d 692, 707, 952 P.2d 590 (1998); *Robey v. Walton Lumber Co.*, 17 Wn.2d 242, 255, 135 P.2d 95 (1943); *B & D Leasing Co. v. Ager*, 50 Wn.App. 299, 306, 748 P.2d 652 (1988). Here, the *City* would undertake pursuant to the Proposed Bond CLA, in connection with the *District's* Proposed Bonds, to make payments sufficient to pay debt service on such bonds in the event that the *District* were unable to do so. The District's bondholders are third-party beneficiaries of the City's

¹⁷ Rather, it would be better characterized here as a *contribution* by the City pursuant to the Proposed Bond CLA (that is, the guaranty) to the District to pay debt service on the Proposed Bonds. Washington local governments have statutory authority to contribute funds to public facilities districts, with or without consideration, for any lawful purposes of the district. See RCW 39.34.060, RCW 36.100.010(7), RCW 82.14.390(5).

undertaking. Proposed Bond CLA § 6.06. Thus, the Proposed Bond CLA is in substance a guaranty by the City of the District's Proposed Bonds.

B. A Guaranty by a City of an Obligation for Borrowed Money Does *Not* Constitute "Debt" of the City so Long as the Obligation to Pay Is Contingent.

The Washington Constitution and statutes limit the ability of local governments, including the City, to incur debt both with and without a vote.¹⁸ See Const., Art. VIII, § 6; RCW 39.36.020. The purpose of these limitations is to protect future taxpayers from government improvidence. See *Dept. of Ecology v. State Finance Comm.*, 116 Wn.2d 246, 257, 804 P.2d 1241 (1991) (en banc). This Court has defined "debt" for these purposes to include an obligation for borrowed money payable in whole or in part from taxes. See *State ex rel. Wittler v. Yelle*, 65 Wn.2d 660, 399 P.2d 319 (1965); *State ex rel. State Finance Comm. v. Martin*, 62 Wn.2d 645, 661, 384 P.2d 833 (1963) (en banc); *State ex rel. Troy v. Yelle*, 36 Wn.2d 192, 195, 217 P.2d 337 (1950).

This Court long ago adopted the rule, however, followed in many jurisdictions, that a *contingent* obligation to make payments for borrowed money does *not* constitute debt. See *Comfort v. City of Tacoma*, 142 Wash. 249, 255, 252 P. 929 (1927); *Kelly v. City of Sunnyside*, 168 Wash. 95, 97, 11 P.2d 230 (1932); *Dept. of Ecology*, 116 Wn.2d at 257.

¹⁸ Those limitations are tied to stated percentages of the assessed value of taxable property within the local government's jurisdiction.

Comfort v. City of Tacoma, which is the principal case addressing this issue, involved a challenge to a special fund established by the City of Tacoma (“Tacoma”) the purpose of which was to provide additional security for local improvement district (“LID”) bonds issued by Tacoma.¹⁹ *Comfort*, 142 Wn. at 250. The LID bonds were payable from and secured by special assessments levied on the individual parcels of property in the various LIDs established by Tacoma. *Id.* at 253. The creation of the fund was expressly authorized by State law, and was funded each year from the imposition of a special levy by Tacoma authorized by the statute. *Id.* at 251. There was no recourse against any other funds or moneys of Tacoma. *Id.* State law limited the amount payable each year from the fund to no more than five percent of the total principal amount of the various series of LID bonds secured by the fund. *Id.* at 254. Thus, there was no assurance that the moneys in the fund would be sufficient to pay debt service on any particular LID bonds when due.

The principal security for the LID bonds were the properties in each LID, as the special assessment on each parcel constituted a lien on such property with priority over all other liens, including home mortgages,

¹⁹ LIDs are used to fund local public improvements such as streets and sidewalks which benefit adjacent properties.

except liens for general taxes.²⁰ *Id.* at 253. To the extent Tacoma had to draw on the guaranty fund to make payments on outstanding LID bonds, Tacoma had the right to proceed against any delinquent property owners and to foreclose on their property in order to recover the moneys paid. Moreover, there apparently was no expectation, in connection with any particular series of LID bonds, that the guaranty fund would have to be drawn upon to pay debt service.²¹

C. The Guaranty by the City of the District's Proposed Bonds Constitutes "Debt" of the City, as the Contingency upon which the City's Obligation to Pay Is Conditioned Appears Reasonably Certain to Occur.

The Proposed Bond CLA is a significantly different, and much broader, undertaking by the City as compared to the guaranty fund in *Comfort*. Payments due under the Proposed Bond CLA are payable from

²⁰ See RCW 35.50.010 (providing that the local improvement property tax assessment on a property shall be a lien on that property).

²¹ The Court explained as follows:

It may be true that, if we were to look wholly to the past, that the court might be justified in saying that there will be an ultimate loss to that fund. But it must be remembered that with the passage of the guaranty act there were imposed new limitations upon the power of cities to levy assessments. We have heretofore adverted to the fact that it prevented pyramiding assessments, an evil against which the property owner was powerless to protect himself, and resulted in much of the property assessed failing to respond in foreclosure.

Whether the Legislature has adopted the proper limitations to bring about a condition where no district will fail to produce sufficient amount, either by voluntary payment or foreclosure, to pay all the bonds without any loss whatever accruing to the guaranty fund, is a matter that time alone can show. That is a matter to be left to the wisdom of the Legislature, and we cannot and will not assume that the purposes it had in mind will fail of attainment. Rather will we assume that the results anticipated will be realized until the contrary clearly appears. *Comfort*, 142 Wash. at 258.

any and all legally available funds of the City, including taxes and other moneys in the City's general fund, and not from a special fund financed by a special levy expressly authorized by State law. Proposed Bond CLA § 1.02(a). The "loans" advanced to the District under the Proposed Bond CLA are unsecured, and to a party which by definition would not have the means to repay those amounts, at least for the foreseeable future. The City is obligated to advance moneys to pay *all* of the debt service on the Proposed Bonds, and not just a portion, when due, to the extent the District lacks the money to do so. *Id.* at § 1.01.

Most important is the fact that the obligations of the City under the Proposed Bond CLA would not really be "contingent." That is, given the District's financial situation, it appears reasonably certain that (1) the City would have to advance moneys to the District from the outset in amounts sufficient to pay debt service on the Proposed Bonds, (2) the City would have to do so for the foreseeable future (possibly for the full term of such Bonds), and (3) the District would be unable to pay the City back, at least anytime in the foreseeable future.

D. A City Cannot Avoid Characterization of an Obligation to Make Payments for Borrowed Money as "Debt" by Use of a Subterfuge.

If a city decided that it wanted to contribute to the costs of a regional events center being undertaken by a public facilities district,, the

city could issue limited tax general obligation ("LTGO") bonds and contribute the proceeds to the district for that purpose. The LTGO bonds, however, would count against the city's non-voted (that is, "limited tax") general obligation bond debt limitation. In an effort to avoid this result, the city instead could ask the public facilities district to issue the bonds, with the city guaranteeing the payment of debt service. The substance of the city's payment obligations would be identical in both cases. Thus, it cannot be the case that, by so doing, the city could transform "debt" into something that is not. To conclude otherwise would subvert the Constitutional and statutory limitations on a city's incurring debt.

Another option would be for the city to issue LTGO bonds to fund its contribution, but with an added "contingency" to its obligation to pay debt service. For example, the city could make its obligation to pay debt service on the LTGO bonds contingent on the continued existence of the United States. It cannot be the case that the mere addition of a contingency, regardless of how likely it is to occur, can transform "debt" into something that is not. Again, to conclude otherwise would subvert the Constitutional and statutory limitations on a city's incurring debt.

E. If It Is Reasonably Certain that a Contingency Will Occur which Is a Condition to a City's Obligation to Make a Future Payment for Borrowed Money, that Obligation Constitutes "Debt."

In most circumstances, whether or not a payment obligation for borrowed money constitutes "debt" is a rather simple determination. For example, bonds issued by a city which are payable from taxes clearly constitute debt. If the payment obligation is contingent, however, the determination is not as simple, and it may not be possible for this Court to fashion a "bright line" standard.

For example, if the obligation to pay were contingent on the continued existence of the project financed (for example, a City Hall), it would be reasonably certain that the contingency would occur and that the payment for borrowed money would have to be made. If, on the other hand, the obligation to pay were contingent on the *destruction* of the City Hall, it would be reasonably certain that the contingency would *not* occur and that the payment for borrowed money thus would *not* have to be made. The obligation in the first case would constitute debt, whereas the obligation in the second case would not.

Vancouver believes that the appropriate standard for determining whether a contingent (but otherwise unconditional)²² payment obligation

²² This Court previously held in *Dept. of Ecology* that State financing arrangements do not give rise to a "debt" for purposes of the Constitutional debt limitation if the Legislature expressly is not obligated to appropriate funds to make payments. 116 Wn.2d

for borrowed money constitutes debt is whether the contingency is *reasonably certain to occur*. If it is, then the obligation constitutes a debt. If it is not, it does not.²³

The question would remain as to whether, if the City Hall later were destroyed and the obligation to make periodic payments for borrowed money thus were triggered, the future payments required to be made by the City would then constitute “debt” of the City. This Court has not addressed that issue. The possibility of “springing debt” would be difficult for local governments, and the parties with whom they enter into contingent payment agreements, to address. The standard providing all parties with the greatest certainty is that the “debt” determination must be made as of the date the contingent obligation is incurred, and is unaffected by whether the payment obligation later is triggered.

at 257. It is important to emphasize the distinction between that case and this. In *Dept. of Ecology*, the obligation of the State to pay *was not* absolute and unconditional. Rather, the State was free at any time to elect *not* to pay (by electing not to appropriate). *Id.* at 254-55. Here, if the contingency is triggered, the City’s obligation to pay is absolute and unconditional.

²³ An alternative might be whether the contingency is reasonably *likely* to occur. That may be more difficult to ascertain, but also may better protect the interests of future taxpayers.

F. The Appropriate Measure of the Amount of Debt where a City Guarantees the Future Payment of Principal of and Interest on Bonds Issued by a Third Party Is the Principal Amount of the Bonds, but not the Related Interest.

If a city issues general obligation bonds, the amount of “debt” it incurs is equal to the principal amount of the bonds, without interest.²⁴ That is because the obligation to pay interest on the bonds in the future is contingent upon the bonds still being outstanding. Thus, if the principal of the bonds is paid off early, no interest is later due. It would be logically inconsistent if the amount of debt the city incurred were greater if, instead, the bonds were issued by a third party (such as the District) but paid by the city pursuant to a guaranty backed by the city’s general tax revenues. Thus, the appropriate measure of the amount of debt created by such a guaranty (at least where the obligation to make payments is not contingent) is the principal amount of the bonds guaranteed, but not the related interest.

G. Characterization of the Proposed Bond CLA in this Case as “Debt” Is Unlikely to Affect other Issuers or Financings in the State.

So far as Vancouver is aware, the use of a guaranty – whether denominated as a “contingent loan agreement” or otherwise – by a Washington city or other local government, payable from general tax revenues, to secure bonds issued by a third party is quite uncommon.

²⁴ RCW 39.36.020.

And, as far as Vancouver is aware, the use of such a guaranty in a circumstance where, as here, it appears reasonably certain to be drawn upon from the outset to pay all or a substantial portion of debt service on the bonds is unique to this case. Thus, the characterization of the Proposed Bond CLA in this case as “debt” of the City, under the analysis presented above, should not affect other issuers or financings in the State. In particular, it would have no effect on the ability of the State or local governments generally to loan moneys to other local governments for any of a variety of other public purposes.

VI. CONCLUSION

For the reasons presented above, Amicus Curiae respectfully requests this Court to hold that the guaranty by the City pursuant to the Proposed Bond CLA of the District’s Proposed Bonds constitutes “debt” of the City if and to the extent that it is reasonably certain that the District will have to draw upon the City’s Proposed Bond CLA in order to make future payments of debt service on the District’s Proposed Bonds.

RESPECTFULLY SUBMITTED this 15th day of December, 2011.

CITY OF VANCOUVER, WASHINGTON

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APPENDIX A

Washington State Auditor's Office

Financial Statements Audit Report

**Greater Wenatchee Regional Events
Center Public Facilities District
(Town Toyota Center)
Chelan County**

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006263

Issue Date
September 6, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 6, 2011

Board of Directors
Town Toyota Center
Wenatchee, Washington

Report on Financial Statements

Please find attached our report on the Town Toyota Center's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

**Town Toyota Center
Chelan County
January 1, 2010 through December 31, 2010**

Schedule of Audit Findings and Responses	1
Status of Prior Audit Findings	7
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	8
Independent Auditor's Report on Financial Statements	10
Financial Section	12

Schedule of Audit Findings and Responses

**Town Toyota Center
Chelan County
January 1, 2010 through December 31, 2010**

- 1. The District cannot pay its operating costs and short-term debt obligations of \$41.8 million. Without financial support from the City of Wenatchee, it likely will default on its loans.**

Summary

In July 2006, nine local governments, including the city of Wenatchee, formed the Greater Wenatchee Regional Events Center Public Facilities District to oversee construction and operation of a regional sports and entertainment center.

A private developer began work on the Center in 2007. In December 2008, the District issued three bond anticipation notes totaling \$41.8 million to pay the developer to purchase the facility. Municipalities use such notes to acquire short-term financing they will repay later by issuing long-term bonds.

The District must sell bonds to pay off the notes and the interest on them to the lenders by December 1, 2011.

As noted in our previous audit, the District has been operating at a net loss since it began operations. The 2008 agreement between the District and the city of Wenatchee states the city will make semi-annual, interest-only payments on the notes if the District is unable to make the payments. The 2006 agreement between the District and the city pledges the city's "full faith and credit" to cover the District's bond debt for the events center.

The city recently asked a court to determine if a contingent loan agreement with the District would make the District's debt the city's debt for purposes of the city's debt limit. If so, the city would have to ask voters to approve the additional debt. If that effort is not successful, the District and the city will have to explore other options, including a District-wide sales tax increase, defaulting on the notes or renegotiating the notes.

Although our previous audit report for the District recommended it develop a formal plan to address its cash-flow issues, it has not formally done so. Instead, it has had to rely on the city to pay the interest on a majority of the notes and to enter into a contingent loan agreement to assist the District sell bonds.

If the District defaults on the notes, it could result in financial and legal consequences for the District and the city of Wenatchee, as described later in this report.

Background

The Toyota Town Center opened in October 2008 and was operated by the development company that built it.

The District planned to pay for Center operations and the bond anticipation notes through ticket sales, booking fees, facility fees, rental fees, convention/event related fees, admission tax and a .033 regional sales tax. Before the Center was built, the developer had projections for 2009 showing the Center would have cash flow to make debt payments of \$1.8 million. An independent consultant estimated the Center would have sufficient cash flow to make debt service payments of \$2.4 million in 2009.

In May 2009, the District learned the Center would not meet the developer's revenue projections and, in fact, would operate at a loss. The District ended its contract with the firm in September of that year.

A transition team of District and city officials and Center employees determined the District and the city would operate the Center, rather than hire another private management firm. The District is in charge of day-to-day operations and the city oversees the finances.

Since then, revenue has been sufficient to cover operating costs excluding depreciation, but not to cover a majority of the interest payments on three bond anticipation notes.

Under the agreement, the city has paid \$1.8 million to date on these notes, only in interest. It has budgeted \$1.6 million for the interest-only payments in 2011.

Operating Losses

The District's operating losses, as shown in the chart below, are caused by lower than expected revenue generation.

The following chart shows operating revenues, expenses and the profit or loss for 2008 through 2010. Operating losses are the District's operating revenues minus its operating expenses, which include depreciation.

Year	Revenue	Expenses	Profit/(loss)
2008	400,075	2,050,388	(1,650,313)
2009	3,673,894	6,160,261	(2,486,367)
2010	2,958,619	5,333,888	(2,375,269)
Total	7,032,558	15,534,537	(6,511,949)

The following chart shows operating revenues, expenses and the profit or loss for 2008 through 2010, with depreciation removed. This chart shows overall operating profit improved from 2009 to 2010.

Year	Revenue	Expenses less Depreciation	Profit/(Loss) less Depreciation
2008	400,075	2,050,388	(1,650,313)
2009	3,673,894	3,830,799	(156,905)
2010	2,958,619	2,904,553	54,066
Total	7,032,558	8,785,740	(1,753,152)

Liabilities

The District's total liabilities increased from \$43 million in 2009 to \$45 million in 2010. This includes the \$41.8 million in bond anticipation notes, \$1.8 million in loans from the city of Wenatchee and other liabilities such as normal accounts payable.

The District's short-term debt rose due to the increase in bond liabilities from \$566,851 in 2009 to \$42,389,885 in 2010.

Bond Notes

Under the notes, the District owes \$2,191,681 in interest on December 1, 2011.

In 2010 the .033 percent sales tax generated approximately \$590,000 toward these interest payments. The remaining interest was paid by loans from the city of Wenatchee of \$230,000 in 2009 and \$1,591,682 in 2010.

The District's bond rating was downgraded from SP-1+ to SP-2 as of April 12, 2011. This will make it more difficult and costly for it to sell bonds needed to pay off the notes.

Cause of Condition

Before the Center was built and the District began operations, the city hired a consultant to project revenue so the city could evaluate the viability of the Center. Based on those projections, the Center was built. Revenue from the Center has not met the projections.

The District and the city have cut costs and tried to increase revenue, but the Center has not turned a profit. The District has not created a formal, written comprehensive plan to address cash-flow issues and its financial situation. The District is currently relying on the city of Wenatchee to support its debt obligations.

Effect of Condition

The District must issue bonds in order to pay off the notes when due, and the District has requested the city enter into a contingent loan agreement since the District revenue is currently not adequate to pay the principal and interest on such bonds. The city is unsure whether such a promise will create city debt. If so, that would put the city over its \$22 million nonvoter-approved debt limit and the city would have to ask voters to approve additional debt. If that effort failed, the District would have to examine other

options, including a district-wide sales tax increase, defaulting on the notes or renegotiating the note agreement.

If the District defaults on the notes it could result in financial and legal consequences for the District including a lower credit rating and potential lawsuits and paying higher interest rates for borrowing in the future.

What's Next

The city is pursuing a legal opinion from the courts to determine if a contingent loan agreement with the District would make the District's debt the city's debt for purposes of the city's debt limit.

Pending the outcome of the court case, we recommend the District and the city continue to work with legal counsel, municipal experts at National League of Cities or others, other partners in the District and bond and other financial experts to determine what steps to take to resolve the issue.

We also recommend the District establish a written, comprehensive plan to address its financial condition. This could include many options, such as, but not limited to, cutting expenses, increasing cash flow or ceasing operations should it become necessary.

The plan also should address how the District will repay its bonds and the loans made by the city and what might happen if it cannot do this.

District's Response

In response to the audit conducted for the Greater Wenatchee Regional Events Center Public Facilities District (the "PFD"), we offer the following:

The Board is comprised of 7 volunteers appointed by participating jurisdictions. At the end of 2010, and continuing into early 2011, there was almost a complete changeover of the composition of the Board (6 new members). Much effort was dedicated by the Board members in reviewing the governing documents and issues at hand. At that time, the PFD was in litigation with its primary tenant, the Wenatchee Wild hockey team, so much of early 2011 was consumed by resolving this litigation.

At the same time, the Board was preparing to proceed with the issuance of bonds to replace the bond anticipation notes originally issued in 2008. There is a statement in the audit that the PFD does not have a "legal instrument" in place to ensure issuance of the bonds. This phrase is not correct, from the PFD's standpoint. The PFD and the City of Wenatchee entered an Interlocal Agreement in 2006, where the City would agree to make the necessary loans to the PFD in the event PFD revenues, from all sources, were insufficient to make payments on any bonds sought by the PFD associated with the acquisition of the Regional Events Center. It would be more accurate to state that the PFD does not, at this time, have the necessary bond documents in place to refinance the 2008 bond anticipation notes. This is due to the fact that the City of Wenatchee has questioned its authority to enter a contingent loan agreement with the PFD by bringing a declaratory judgment action in Chelan County Superior Court. The PFD was first advised of the City's position at the end of April, 2011.

The outcome of the pending litigation will influence the next steps taken by the PFD. Several scenarios have been pursued or discussed since the last audit, including the pursuit of a 0.2% sales tax increase, which would require approval of all 9 participating jurisdictions to allow for the matter to be submitted to a vote of the residents. While the initial effort in this regard met skepticism, all further efforts to pass a sales tax increase have been stalled, pending the outcome of the litigation commenced by the City. At this time, it is difficult to formulate a long-term plan given the lawsuit commenced by the City. Further, much of that effort is comingled with legal steps that addressing a number of the auditor's comments would, in essence, require the disclosure of litigation strategy.

The PFD staff has performed well under difficult circumstances, as demonstrated by the operational profit in 2010. When compared to 2009, the PFD has improve its financial condition by \$210,000 on an operating basis (without consideration to depreciation or the sales tax receipts which are dedicated to repayment of the sales tax notes). Events, promotions, cost cutting, etc. are frequently the topic of the PFD's regular open public meetings. Perhaps the plan desired by the Auditor did not exist in a single comprehensive document, but efforts to address the essence of the Auditor's comments have certainly occurred.

Auditor's Remarks

We understand the complexity of the District's situation; however when considering all applicable operating revenues and expenditures the District's financial position has not improved and instead continues to decline. In addition, without a formal, comprehensive plan to address its financial condition, it's not evident to the public as well as the users of its financial statements what plan District management had developed to proactively address the situation. We appreciate the steps the District is taking to resolve this issue, and will review the condition during our next audit.

Applicable Laws, Regulations and Agreements

2006 Interlocal Agreement between the District and the City of Wenatchee, states in part:

Section 2, B1(e)

The City agrees to execute a Contingent Loan Agreement, in a form approved by the PFD, to provide security for all or a portion of the bonds to be issued by the PFD to finance the Regional Events Center. The PFD, in consultation with underwriters of the bonds and the rating agency rating the bonds and any bond insurer, shall determine whether all or a portion of the bonds to be issued should be secured by the Contingent Loan Agreement. The Contingent Loan Agreement shall provide that to the extent that sales taxes and operating income received by the PFD is insufficient to cover operating and maintenance expenses of the Regional Events Center and pay principal of and interest on the bonds issued for the Regional Events Center, the City shall pay the portion of the principal of and interest on such bonds not covered by such taxes or income. The City shall pledge its full faith and credit to the repayment of such bonds. The City agrees

to execute such other financing documents that may be required to enable the PFD to issue bonds for the Regional Events Center.

Section 2, G

Duration of Agreement. This agreement shall continue in full force and effect until such time as all bonds issued for the construction or acquisition of the Regional Events Center are fully paid and redeemed, unless terminated earlier by consent of both parties.

2008 Contingent Loan Agreement between the District and the City of Wenatchee, states in part:

Article II, Section 2.01

Loans to the District. The City will lend money to the District at the times and in the amounts set forth in Section 2.02. The District will borrow the amounts described above from the City pursuant to this Agreement for the purpose of ensuring the payment of interest on the Notes. The aggregated principal amount of outstanding Loans to be made by the City pursuant to this Agreement shall not exceed the interest accrued on the Notes. Loans made to the District hereunder shall not be used to pay the principal of the Notes or the principal of or interest on the District's Limited Sales Tax Bond Anticipation Notes, Series 2008.

Article II, Section 2.02(c)

Funding of Loans. For as long as the Notes remain outstanding, if the City receives a Deficiency Notice then the City shall loan to the District an amount that, when added to the Note Fund balance, is sufficient to pay all interest on the Notes coming due on the upcoming interest payment date . . .

Article II, Section 2.02(d)

Full Faith and Credit Pledge; Limited Tax General Obligation. The City irrevocably pledges its full faith, credit and resources to make Loans due to the District under subsection (c). The City further irrevocably covenants that it will budget and make annual levies of ad valorem taxes upon all of the property within the boundaries of the City subject to taxation within and as a part of the tax levy permitted to be levied by the City without a vote of the electors, in amount sufficient (together with other legally available funds) to make Loans due to the District under subsection (c); provided, such amounts shall be limited to the City's non-voted debt capacity. Loans shall be made from any lawfully available City funds.

Article II, Section 2.05

Nature of City's Obligation. The City's obligation to make Loans to the District in the amounts, at the times and in the manner described herein shall be absolute and unconditional, and shall not be subject to diminution by setoff, counterclaim, abatement or otherwise. The full faith, credit and resources of the City are pledged irrevocably to the making of Loans required hereunder. The City agrees to make Loans to the District hereunder regardless of whether the Regional Center is operating at any particular time. The obligations of the City to make Loans hereunder shall terminate upon payment in full of the principal of and interest on the outstanding Notes.

Article V, Section 5.02

Remedies of District on Default. Upon the occurrence of a default by the City in its obligations hereunder, the District may proceed to protect and enforce its rights in equity or at law, either in mandamus or for the specific performance of any covenant or agreement contained herein, or for the enforcement of any other appropriate legal or equitable remedy, as the District may deem most effectual to protect and enforce any of its rights or interests hereunder.

Status of Prior Audit Findings

Town Toyota Center Chelan County January 1, 2010 through December 31, 2010

The status of findings contained in the prior years' audit reports of the Town Toyota Center is provided below:

1. The District has insufficient funds to pay for its current operations and long-term debt obligations.

Report No. 1004560, dated November 15, 2010

Background

The District has operated at a loss for the past two years, resulting in an inability to cover its obligations. We noted:

- Operating losses of approximately \$1.6 million in 2008 and \$2.5 million in 2009.
- Unrestricted net assets decreased from \$1,281,661 in 2008 to \$592,152 in 2009.

In addition, the District has long-term debt of approximately \$42 million in the form of three bond anticipation notes. These notes require annual interest payments of \$2,191,681 until they mature in December 2011. Based on the District's financial position, it can only pay approximately \$580,000 per year using sales tax revenue.

The District entered into a contingent loan agreement with the city of Wenatchee that commits the city to lend the District funds for the remaining bond interest due. To date, the city has paid \$230,000 of the December 2009 interest payment and anticipates it will be obligated to loan an additional \$1,591,682 for the 2010 payment.

Status

The Town Toyota Center likely will not generate enough revenue through operations to fund both the cost of operations and debt service. The District's plan related to its debt includes entering into a new contingent loan agreement with the city of Wenatchee prior to issuing long-term bonds to replace the current bond anticipation notes. The Board also is committed to pursue any viable revenue increase options, including a potential sale tax increase within the District. The Board sent a letter to the City Council April 5, 2011, to communicate that commitment.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Town Toyota Center
Chelan County
January 1, 2010 through December 31, 2010

Board of Directors
Town Toyota Center
Wenatchee, Washington

We have audited the basic financial statements of the Town Toyota Center, Chelan County, Washington, as of and for the year ended December 31, 2010, and have issued our report thereon dated June 10, 2011. The District has suffered recurring losses from operations and has \$41.8 million in Bond Anticipation Notes due December 1, 2011, facts that raise substantial doubt about its ability to continue as a going concern, as stated in Finding 1. Management's plans in regard to these matters are described in the notes to the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.


COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name and title.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 10, 2011

Independent Auditor's Report on Financial Statements

**Town Toyota Center
Chelan County
January 1, 2010 through December 31, 2010**

Board of Directors
Town Toyota Center
Wenatchee, Washington

We have audited the accompanying basic financial statements of the Town Toyota Center, Chelan County, Washington, as of and for the year ended December 31, 2010, as listed on page 12. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

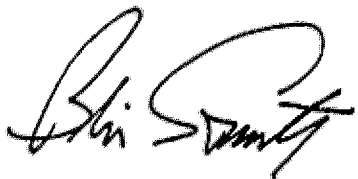
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Town Toyota Center, as of December 31, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Notes 7 and 12 to the financial statements and Finding 1, the District has suffered recurring losses from operations and has \$41.8 million in Bond Anticipation Notes due December 1, 2011. The District has been unable to repay the annual interest payments on these notes from its operations and has drawn on a Contingent Loan Agreement with the City of Wenatchee dated November 13, 2008, that commits the City to lend the District money for the purpose of repaying the interest. The District will not have sufficient funds to repay the bond anticipation notes on December 1, 2011, apart from issuing permanent long-term debt. At present, the District has no legal instrument in place to refund the debt, which raises substantial doubt about its ability to continue as a going concern, as discussed in Finding 1. Management's plans in regard to these matters are also described in Notes 7, 12 and 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the District's internal control over financial reporting and on our tests of its

compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 13 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized flourish at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 10, 2011

Financial Section

Town Toyota Center
Chelan County
January 1, 2010 through December 31, 2010

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2010

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2010
Statement of Revenues, Expenses and Changes in Fund Net Assets – 2010
Statement of Cash Flows – 2010
Notes to the Financial Statements – 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Greater Wenatchee Regional Events Center Public Facilities District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2010. The District was formed June 2006 under RCW 35.57 to have a regional event center constructed. The center was substantially complete and opened October 2008. The District had an agreement to lease or purchase the event center upon substantial completion of the construction and exercised the option to purchase the Center December 2008 by issuing three year short term bond and tax anticipation notes. The District terminated the management contract with Global Entertainment Corporation September 2009 and elected to self manage the facility and as a result hired a General Manager October 2009. The District had an inter-local agreement with the City of Wenatchee to provide staff support and as result of this agreement the City began managing the financial records at the Event Center June 2009. The District and The City revised the support staff agreement to an agreement for accounting and other services October 2009. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of fiscal year 2010 by \$4,568,499. Of this amount, \$545,983 may be used to meet the District's ongoing obligations to creditors.
- The District's total net assets decreased by \$4,232,959.
- Operating expenses were greater than revenues in 2010 by \$2,375,269.
- Net non-operating expenses exceeded non operating revenues by \$1,627,690.
- The District drew upon the 2008 Contingent Loan Agreement with the City of Wenatchee in the amount of \$1,592,682 to help pay the annual interest payments on the District's Revenue BAN's.
- The District's operating revenues have not been sufficient enough to cover both operating expenses and debt service and it appears unlikely that current operations will generate enough revenue to ever cover debt service. As a result the District is looking into other funding sources and additional operating revenue streams to cover debt service.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. As a special purpose government engaged in only one business-type activity, the District's basic financial statement are comprised of only two components: 1) enterprise fund financial statements, and 2) notes to the financial statements.

The **enterprise fund financial statements** are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information showing how the District's net assets changed during the reporting period. All changes in net assets are reported as soon as the underlying event giving rise to the change as it occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, and earned but unpaid salaries and benefits).

The *statement of cash flows* provides information on the cash receipts and cash payments of the District, and how they relate to the District's operating, non-capital financing, capital and related financing and

investing activities. This statement can be used in conjunction with the statement of net assets and the statement of revenues, expenses and changes in fund net assets to assess the District's ability to meet its cash flow requirements.

The *notes to the financial statements* provide additional information that is considered to be essential for a full understanding of the information provided in the statement of net assets, statement of revenues, expenses and changes in fund net assets and statement of cash flows.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4,568,499, for fiscal year 2010. The change in net assets is due substantially to the interest payments on the notes, the draw on the Contingent Loan Agreement with the City of Wenatchee and depreciation.

Greater Wenatchee Regional Events Center Public Facilities District Comparative Statement of Net Assets

	<u>2010</u>	<u>2009</u>
Assets		
Current and other assets	\$ 1,117,677	\$ 1,125,551
Capital assets	<u>47,994,249</u>	<u>50,423,584</u>
Total assets	<u>49,111,926</u>	<u>51,549,135</u>
Liabilities		
Long-term debt	2,153,542	42,214,278
Other liabilities	<u>42,389,885</u>	<u>533,399</u>
Total liabilities	<u>44,543,427</u>	<u>42,747,677</u>
Net Assets		
Invested in capital assets, net of related debt	4,022,516	8,209,306
Restricted	0	0
Unrestricted	<u>545,983</u>	<u>592,152</u>
Total net assets	<u>\$ 4,568,499</u>	<u>\$ 8,801,458</u>

The unrestricted net assets may be used to meet the government's ongoing obligations to creditors.

Greater Wenatchee Regional Events Center
Public Facilities District
Statement of Revenue, Expenses and Changes in Fund Net Assets

	<u>2010</u>	<u>2009</u>
Operating Revenues	\$ 2,958,619	\$ 3,673,894
Operating Expenses	<u>5,333,888</u>	<u>6,160,261</u>
Net Operating Income (Loss)	(2,375,269)	(2,486,367)
Non Operating Income (Expenses)	<u>(1,627,690)</u>	<u>(1,363,216)</u>
Net Income (Loss)	(4,002,959)	(3,849,583)
Total Net Assets - January 1	8,801,458	12,683,456
Prior Period adjustments	<u>(230,000)</u>	<u>(32,415)</u>
Total Net Assets - December 31	<u>\$ 4,568,499</u>	<u>\$ 8,801,458</u>

As mentioned previously the District was created June 2006 and with the intention of purchasing and operating an event center. The Center began operations October 2008 and the District purchased the center December 2008 by issuing three year bond and tax anticipation notes. Fiscal year 2009 was the District's first full year of operations.

The operating revenues were greater in 2009 than 2010 due to a change in revenue recognition timing for the contractual sale of seats, suites and advertising in 2009. Previously these revenues were prorated based upon the number of events/games in a season that spanned two fiscal years (the season runs from September of one fiscal year into April of the following fiscal year). These revenues are now recognized in full at the time of billing at the beginning of the season.

The 2010 operating expenses were less than those of the 2009 due to the District's change in management style. The District hired a General Manager October 2009 and now manages the building themselves. This provides more control to the Board and eliminates the management fee.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets for as of December 31, 2010, amounts to \$47,994,249 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and machinery and equipment. There was no major capital activity in 2010.

GWREC PFD Capital Assets
(net of depreciation)

	<u>2010</u>	<u>2009</u>
Land	\$ 1,706,915	\$ 1,706,915
Buildings and system	44,726,217	46,679,701
Improvements other than buildings	0	0
Machinery and equipment	1,561,117	2,036,968
Construction in progress	0	0
Total	<u>\$ 47,994,249</u>	<u>\$ 50,423,584</u>

Additional information on the District's capital assets can be found in Footnote #4 of this report.

Short-term Debt. The District's short-term debt as of December 31, 2010 consisted of three bond anticipation notes (BANS) that were issued to purchase the event center facility in the latter part of 2008. The three notes mature December 1, 2011. Each of the notes is a general obligation of the District within the meaning of RCW 35.57.030.

Item	Interest Rates	Maturity	Authorized	Outstanding 1/1/2010	Additions	Reductions	Outstanding 12/31/2010
General Obligation Bonds:							
2008 Limited Sales Tax BAN	5.25%	12/1/2011	5,135,000	5,135,000	0	0	5,135,000
2008 Revenue & Special Tax BAN	5.00%	12/1/2011	31,160,000	31,160,000	0	0	31,160,000
2008 Revenue & Special Tax BAN (taxes)	6.38%	12/1/2011	5,475,000	5,475,000	0	0	5,475,000
Total General Obligation Bonds			\$ 41,770,000	\$ 41,770,000	0	0	\$ 41,770,000

As a part of the issuance of the bond anticipation notes the District met with representatives of Standard & Poor's Ratings Service and ultimately received a rating of "SP-1+" on the Sales Tax Notes and Revenue and Special Tax Notes. The rating was subsequently downgraded to SP-2 on April 12, 2011.

Long-term Debt. The District's long-term debt as of December 31, 2010 consisted of the draws on the Contingent Loan Agreement (CLA) with the City of Wenatchee, the accrued interest on the CLA principal and the lease to purchase the kitchen equipment at the center. At this time it is impossible for the District to determine when a payment on the CLA will be made.

Item	Interest Rates	Maturity	Authorized	Outstanding 1/1/2010	Additions	Reductions	Outstanding 12/31/2010
General Obligations:							
City of Wenatchee Contingent Loan Agreement		unknown	1,821,682	230,000	1,591,682	0	1,821,682
City of Wenatchee Interest on CLA	Wa LGIP	unknown	2,201	2,201	0	0	2,201
Capital Lease	5.50%	10/16/15	455,000	444,279	0	66,427	377,852
Total General Obligation Bonds			\$ 2,278,883	\$ 676,480	\$ 1,591,682	\$ 66,427	\$ 2,201,735
Wa LGIP - Washington State Local Government Investment Pool monthly interest rate							

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the GWREC PFD, 1300 Walla Walla, Wenatchee, WA 98801 or City of Wenatchee, Finance Dept, PO Box 519, Wenatchee, WA 98807.

**GREATER WENATCHEE REGIONAL EVENTS
CENTER PUBLIC FACILITIES DISTRICT**

Statement of Net Assets

December 31, 2010

Assets

Current Assets

Cash and Cash Equivalents	\$ 755,591
Receivables	215,659
Prepaid Expenses	63,111
Unamortized debt issue costs/premiums	83,316
Total Current Assets	<u>1,117,677</u>

Non-current Assets

Capital Assets

Land	1,706,915
Buildings and system (net)	44,726,217
Machinery and equipment (net)	1,561,117
Total Non-current Assets	<u>47,994,249</u>

Total Assets	<u><u>49,111,926</u></u>
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Liabilities

Current Liabilities

Current Payables	196,895
Bond Interest Payable	182,639
Unearned Revenue	170,177
Lease Payable	70,174
Bonds Payable	41,770,000
Total Current Liabilities	<u>42,389,885</u>

Non-current Liabilities

Unearned Revenue	21,983
Lease Payable	307,677
Contigent Loans Payable	1,823,882
Total Non-current Liabilities	<u>2,153,542</u>

Total Liabilities	<u>44,543,427</u>
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Net Assets

Invested in capital assets, net of related debt	4,022,516
Unrestricted	545,983
Total Net Assets	<u><u>\$ 4,568,499</u></u>

The notes to the financial statements are an integral part of this statement.

**GREATER WENATCHEE REGIONAL EVENTS CENTER
PUBLIC FACILITIES DISTRICT**

Statement of Revenues, Expenses and Changes in Fund Net Assets

December 31, 2010

Operating Revenues	
General Revenues	\$ 1,279,734
Event Revenues	1,678,885
Total Operating Revenues	<u>2,958,619</u>
Operating Expenses	
General Operating Expenses	1,511,472
Event Expenses	1,311,040
Depreciation / Amortization	2,511,376
Total Operating Expenses	<u>5,333,888</u>
Net Operating Income (Loss)	(2,375,269)
Non Operating Revenues(Expenses)	
Sales Tax	588,343
Interest Income	1,530
Interest Expense & Related Charges	(2,217,563)
Total Non-Operating Revenues (Expenses)	<u>(1,627,690)</u>
Net Income (Loss)	(4,002,959)
Total Net Assets - January 1	8,801,458
Prior Period Corrections	(230,000)
Total Net Assets - December 31	<u><u>\$ 4,568,499</u></u>

The notes to the financial statement are an integral part of this statement.

**GREATER WENATCHEE REGIONAL EVENTS CENTER
PUBLIC FACILITIES DISTRICT**

Statement of Cash Flows

December 31, 2010

Cash Flows from Operating Activities:

Receipts from Customers	\$ 3,050,077
Payments to Suppliers and Subcontractors	(1,948,389)
Payments to Employees	<u>(888,149)</u>
Net Cash Provided by Operating Activities	<u>213,539</u>

Cash Flows from Capital Financing Activities:

Taxes for Capital Construction	579,908
Interest and Related Costs paid on Bond Anticipation Notes	(2,192,587)
Interest and principal payments on lease	(89,205)
Cash Contributions / Grants	<u>1,591,682</u>
Net Cash Provided (Used) by Capital Financing	<u>(110,202)</u>

Cash Flows from Investing Activities:

Interest Income	<u>1,531</u>
Net Cash Provided by Investing Activities	<u>1,531</u>

Net Increase(Decrease) in Cash and Cash Equivalents	104,868
Cash and Cash Equivalents - January 1	<u>650,723</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 755,591</u></u>

Reconciliation of operating loss to net cash

used by operating activities:	
Net Operating Income(Loss)	\$ (2,375,269)
Adjustments to Reconcile Operating Loss to Net Cash	
Used by Operating Activities:	
Depreciation	2,511,376
Changes in Assets and Liabilities:	
(Increase) decrease in prepaid expenses	(43,242)
(Increase) decrease in accounts receivable	82,377
Increase (decrease) in payables	14,274
Increase(decrease) in unearned revenue	<u>24,023</u>
Total Adjustments	<u>77,432</u>
Net Cash Used by Operating Activities	<u><u>\$ 213,539</u></u>

The notes to the financial statements are an integral part of this statement.

**GREATER WENATCHEE REGIONAL EVENTS CENTER
PUBLIC FACILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Greater Wenatchee Regional Events Center Public Facilities District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described in the following notes.

A. The Reporting Entity

The Greater Wenatchee Regional Events Center Public Facilities District was formed as a municipal corporation in July 2006 under the authority of RCW 35.57 to oversee the construction and operation of an event center facility. The formation itself was accomplished through an interlocal agreement that includes the City of Wenatchee, City of Cashmere, City of Chelan, City of East Wenatchee, City of Entiat, City of Rock Island, The Town of Waterville, Chelan County and Douglas County. Construction of the event center commenced late summer 2007 and was completed in the autumn of 2008.

The District is included in the City of Wenatchee's reporting entity as a discretely presented component unit because of the financial accountability relationship. The City also appoints four of the seven-members of the board and conceivably has the ability to impose its will on the Public Facilities District.

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the *Budgeting, Accounting and Reporting System for Proprietary – Type Districts* in the State of Washington.

The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred with the exclusion of the contractual sale of seats, suites and advertising whose revenue is recognized when billed. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. Principal operating revenues for the District include charges to customers for facility rental, catering service, and other convention/event related services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

C. Assets, Liabilities and Equities

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposit accounts as well as short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the District to invest in obligations of the U.S. Treasury, State Treasurer's Investment Pool, banker's acceptances, or deposits with Washington State banks and savings and loan institutions.

The District's deposits are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

2. Receivables

Customer account receivable consist of amounts owned by private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

3. Amounts Due to and from Other Governments

These receivables and payables reflect measurable and available intergovernmental charges for services rendered by, or to, the District for, or by, another governmental unit.

4. Capital Assets

Major outlays for capital assets and improvements (which include property, plant and equipment) are capitalized as projects are constructed or items are purchased. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The cost of normal maintenance and repairs is not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	25 years
Building Improvements	10-25 years
Equipment	4-10 years

D. Budgetary Information

The District adopts its budget on an annual basis. When the Board determines that it is in the best interest of the District to increase or decrease the estimated revenues or appropriations of the operation, it may do so by resolution approved by one more than the majority (5 of 7 board members) after holding a public hearing. The budget was not amended during 2010.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits:

The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). As of December 31, 2010, the carrying amount of the District's cash balances was \$642,238 which consisted entirely of bank deposits.

Investments:

As of December 31, 2010 the District had total investments of \$113,353, all of which was invested in the Washington State Investment Pool. A credit rating for the pool is unavailable.

Custodial risk is the risk that in event of failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. Of the Districts total position of \$113,353 in the Washington State Investment Pool nothing is exposed to custodial credit risk.

There was no net increase or decrease in the fair value of investments during 2010 because the District's only investments on hand throughout the period were in the State Investment Pool.

NOTE 4. CAPITAL ASSETS

As of December 31, 2010, the District had the following capital assets. See Note #8 for a related discussion on this topic.

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,706,915	\$ 0	\$ 0	\$ 1,706,915
Construction in progress	0	0	0	0
Total capital assets not being depreciated	1,706,915	0	0	1,706,915
Capital assets being depreciated:				
Buildings	48,624,320	0	0	48,624,320
Improvements other than buildings	0	0	0	0
Machinery and equipment	2,421,811	0	0	2,421,811
Total capital assets being depreciated	51,046,131	0	0	51,046,131
Less accumulated depreciation for:				
Buildings	1,944,618	1,944,618	0	3,889,236
Improvements other than buildings	0	0	0	0
Machinery and equipment	384,843	484,717	0	869,560
Total accumulated depreciation	2,329,462	2,429,335	0	4,758,796
Total capital assets being depreciated, net	48,716,669	(2,429,335)	0	46,287,335
Capital assets, net	\$ 50,423,584	\$ (2,429,335)	\$ 0	\$ 47,994,250

NOTE 5. PENSION PLANS

The District does not offer a pension plan. Employees of the District may at their option participate in an IRS Section 457 deferred compensation plan.

NOTE 6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. To address these risks the District has become a member of Enduris Washington (formerly the Washington Governmental Entity Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. Enduris was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2010, there are 451 Enduris members representing a broad range of special purpose districts.

Enduris allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. Enduris provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris and Enduris acquires insurance from unrelated insurance companies that is subject to a "per occurrence":

- \$750,000 deductible on liability loss (9/1/09 – 12/31/09) – the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$749,000 of liability loss;
- \$1,000,000 deductible on liability loss (1/1/10 – 8/31/10) – the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 of liability loss;
- \$250,000 deductible on property loss – the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss;

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contributions to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of the Enduris.

NOTE 7. SHORT-TERM DEBT

The District's short-term debt as of December 31, 2010 consisted of three bond anticipation notes (BANs), maturing December 1, 2011, that were issued to purchase the event center facility in the latter part of 2008. Each of the notes is a general obligation of the District within the meaning of RCW 35.57.030. The BANs consisted of the following:

- Limited sales tax BANs in the amount of \$5,135,000 (nontaxable).
- Revenue and special tax BANs in the amount of \$31,160,000 (nontaxable).
- Revenue and special tax BANs in the amount of \$5,475,000 (taxable).

As a part of the issuance of the bond anticipation notes the District met with representatives of Standard & Poor's Ratings Service and ultimately received a rating of "SP-1+" on the Sales Tax Notes and Revenue and Special Tax Notes. The rating was subsequently downgraded to an SP-2 on April 12, 2011.

Each of the three series of BANs may be called not sooner than December 1, 2010 but not later than December 1, 2011. As of December 31, 2010 the BANS had not been called. Through the life of the BANs, the District will make interest only payments on June 1 and December 1, each year through December 1, 2011.

The following table depicts debt outstanding as of December 31, 2010:

Item	Interest	Maturity	Authorized	Outstanding			Outstanding
	Rates			1/1/2010	Additions	Reductions	12/31/2010
General Obligation Bonds:							
2008 Limited Sales Tax BAN	5.25%	12/1/2011	5,135,000	5,135,000	0	0	5,135,000
2008 Revenue & Special Tax BAN	5.00%	12/1/2011	31,160,000	31,160,000	0	0	31,160,000
2008 Revenue & Special Tax BAN (taxes)	6.38%	12/1/2011	5,475,000	5,475,000	0	0	5,475,000
Capital Lease	5.50%	10/16/15	455,000	444,279	0	66,427	377,852
Total General Obligation Bonds			\$ 42,225,000	\$ 42,214,279	\$ 0	\$ 66,427	\$ 42,147,852

Annual debt service requirements to maturity for the bond anticipation notes (BANs) outstanding are as follows:

Year Ending December 31	Sales Tax Notes		Revenue and Special Tax Notes				Total	
	Principal	Interest	Nontaxable		Taxable		Principal	Interest
			Principal	Interest	Principal	Interest		
2011	5,135,000	256,750	31,160,000	1,585,900	5,475,000	349,031	41,770,000	2,191,681
	<u>\$ 5,135,000</u>	<u>\$ 256,750</u>	<u>\$ 31,160,000</u>	<u>\$ 1,585,900</u>	<u>\$ 5,475,000</u>	<u>\$ 349,031</u>	<u>\$ 41,770,000</u>	<u>\$ 2,191,681</u>

When the BANs were issued in November 2008, the District entered into a contingent loan agreement (CLA) with the City of Wenatchee, Washington that commits the City to lend the District money for the purpose of ensuring the payment of interest on the Revenue and Special Tax Notes. The CLA however expressly states that loans made to the District shall not be used to pay the principal of the Revenue and Special Tax Notes. The District and City did not enter into a contingent loan agreement or any other agreement securing the Limited Sales Tax BANs.

Preceding the November 2008 contingent loan agreement however is a September 2006 interlocal agreement between the District and City that was for the purpose of financing, developing and operating a Regional Events Center which states in part:

The City agrees to execute a Contingent Loan Agreement, in a form approved by the PFD, to provide security for all or a portion of the bonds to be issued by the PFD to finance the Regional Events Center. The PFD, in consultation with underwriters of the bonds and the rating agency rating the bonds and any bond insurer, shall determine whether all or a portion of the bonds to be issued should be secured by the Contingent Loan Agreement. The Contingent Loan Agreement shall provide that to the extent that sales taxes and operating income received by the PFD is insufficient to cover operating and maintenance expenses of the Regional Events Center and pay principal of and interest on the bonds issued for the Regional Events Center, the City shall pay the portion of the principal of and interest on such bonds not covered by such taxes or income. The City shall pledge its full faith and credit to the repayment of such bonds. The City agrees to execute such other financing documents that may be required to enable the PFD to issue bonds for the Regional Events Center.

The PFD anticipates issuing bonds in 2011 to raise revenue to satisfy the BANs. It is uncertain at this time whether the PFD and City will enter another contingent loan agreement relating to future bonds.

As a result of operating revenues not being sufficient enough to cover both operating expenses and debt service on the BANs, the City paid \$ 230,000 of the December 1, 2009 interest payment, \$1,591,682 of the December 1, 2010 interest payment and we anticipate the City will pay an additional 1,591,682 of the \$2,191,681 interest payment in 2011.

Recognizing there is a possibility that future annual operating revenues may continue to be inadequate to cover both operating expenses and debt service payments the District is considering a number of options to make bond payments. Available options include:

- Developing a ballot proposition that requests residents of the District approve up to a .2% sales tax whose proceeds would be applied to operations and debt service payments of the District. We estimate such a tax would generate as much as \$3.6 million per year.
- Applying all operating revenues of the District towards debt service on bonds and requesting that the City of Wenatchee consider covering operating expenses. This option would relieve the City of the debt burden tied to the District and consequently not impair the City's debt capacity.

NOTE 8. LONG-TERM DEBT

The District's long-term debt as of December 31, 2010, consisted of the draws on the Contingent Loan Agreement (CLA) with the City of Wenatchee (noted above) and the accrued interest on the CLA outstanding balances. At this time the District does not know when a payment will be made on the CLA.

Item	Interest	Maturity	Authorized	Outstanding			Outstanding
	Rates			1/1/2010	Additions	Reductions	12/31/2010
General Obligations:							
City of Wenatchee Contingent Loan Agreement		unknown	1,821,682	230,000	1,591,682	0	1,821,682
City of Wenatchee Interest on CLA	Wa LGIP	unknown	2,201	2,201	0	0	2,201
Total General Obligation Bonds			\$ 1,823,883	\$ 232,201	\$ 1,591,682	\$ 0	\$ 1,823,883
Wa LGIP - Washington State Local Government Investment Pool monthly interest rate							

NOTE 9. CAPITAL LEASES

The District entered into a lease agreement in October 2009 to finance the purchase of kitchen equipment at the Center. The amount of the lease was \$455,000 for a six year term and 5.5% interest rate. This lease qualifies as a capital lease for accounting purposes, and has been recorded at the present value of the future minimum lease payments as of the inception date. The assets purchased through this lease are as follows:

Asset	
Kitchen Equipment	\$ 497,594
Less Accumulated Depreciation	(99,519)
Total	\$ 398,075

The future minimum lease obligation and the net present value of the minimum lease payment as of December 31, 2010 were:

Year Ending December 31	
2011	89,205
2012	89,205
2013	89,205
2014	89,205
2015	74,337
Total minimum lease payments	431,157
Less amount representing interest	(53,305)
Present value of minimum lease payments	\$ 377,852

NOTE 10. CHANGES IN LONG TERM LIABILITIES

The following shows a summary of changes in long-term liabilities for the year ended December 31, 2010:

Item	Outstanding 1/1/2010	Additions	Reductions	Outstanding 12/31/2010	Due Within One Year
General Obligation Bonds:					
2008 Limited Sales Tax BAN	\$ 5,135,000	\$ 0	\$ 0	\$ 5,135,000	\$ 5,135,000
2008 Revenue & Special Tax BAN	31,160,000	0	0	31,160,000	31,160,000
2008 Revenue & Special Tax BAN (taxable)	5,475,000	0	0	5,475,000	5,475,000
Total General Obligation Bonds	41,770,000	0	0	41,770,000	41,770,000
The General Obligation Bonds are due within one year and are now considered short-term debt.					
Please see note 7 for further discussion.					
City of Wenatchee Contingent Loan Agreement					
Principal	230,000	1,591,682	0	1,821,682	0
Interest	0	2,201	0	2,201	0
Capital Leases	444,279	0	66,427	377,852	70,174
Total Long Term Liabilities	\$ 674,279	\$ 1,593,883	\$ 66,427	\$ 2,201,735	\$ 70,174

NOTE 11. CONTINGENCIES AND LITIGATIONS

The District has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the District will have to make payment. In the opinion of management, the District's insurance policies and reserves are adequate to pay all known or pending claims.

NOTE 12. OTHER DISCLOSURES**Extraordinary or Special Items**

The District had a prior period correction in 2010 that was a result of the 2009, \$230,000 draw on the Contingent Loan Agreement (CLA) with the City of Wenatchee. At the time of the draw the District had no reasonable expectation of when or if it would be able to repay the CLA; therefore we considered the draw to be a contribution rather than debt. Since that time however we have concluded that the \$230,000 draw on the CLA constitutes a loan rather revenue and consequently must be reported as debt by the District. This prior period correction moves \$230,000 from the Statement of Revenues and Expenses to the Statement of Net Assets.

Going Concern

The Public Facilities District Board has determined that the Town Toyota Center will never likely generate enough revenue through operations to fund both the cost of operations and debt service. The PFD is expecting to enter into a new contingent loan agreement with the City of Wenatchee prior to issuing long term bonds to replace the current bond anticipation notes. As of May 31, 2011, no agreement has been entered into. The PFD board committed to pursue any viable revenue increase options including a potential sales tax increase within the district.

NOTE 13. SUBSEQUENT EVENTS**A. Bond Anticipation Note Rating Downgrade**

April 12, 2011, Standard and Poor's Ratings Service downgraded their rating of the District's Bond Anticipation Notes to SP-2 from SP-1+ (see footnote number 8 for further details).

B. Contingent Loan Agreement – City of Wenatchee, WA

On November 13, 2008, the District entered into a contingent loan agreement with the City of Wenatchee, WA (City) (see notes 1.A., 7 and 10 for more information) that commits the City to lend the District money for the purpose of ensuring the payment of interest on Revenue and Special Tax Notes that were issued in November 2008. Terms of the notes are that interest only payments are made semi-annually on

June 1 and December 1, until December 1, 2011 when the notes are to be retired with the proceeds of the issuance of long-term bonds. Prior to the issuance of the long-term bonds in 2011 the District and City must enter into another contingent loan agreement. On April 28, 2011, the Wenatchee City Council approved an action authorizing the Mayor and City Staff to pursue a contingent loan agreement with the District to refinance the 2008 bond anticipation notes subject to final Council approval and further subject to:

- a) Judicial validation pursuant to bond validation statute, RCW 7.25 (which must be initiated by the Board of Directors of the District), or alternatively
- b) The declaratory judgment statute, RCW 7.24 (which may be initiated by the City), or such other authorities as may be applicable.

On May 6, 2011, the District Board considered and rejected the bond validation statute provide for in RCW 7.25.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

**State Auditor
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Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
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Jim Brittain, CPA
Jan Jutte, CPA, CGFM
Ivan Dansereau
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